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**Macroeconomic Aspects to be Considered in the Strategic
Planning and in the Risk Assessing Process of the Post Office**

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**“The information you have is not the information you want.
The information you want is not the information you need.
The information you need is not the information you can obtain.
The information you can obtain costs more than you want to pay.”⁽³⁾**

Abstract

This final paper was done by Silas Roberto de Souza, Auditor of the Brazilian Enterprise of Posts and Telegraphs, as part of the Minerva Program, sponsored by the Minerva Cultural Institute and carried out by the Institute of Brazilian Business and Public Management Issues of The George Washington University.

The goal of this study is to indicate macroeconomic aspects to be considered in the strategic planning process and in the risk assessing process of the Brazilian Enterprise of Posts and Telegraphs. Yet neither the strategic planning process nor the risk assessing process is deeply studied. Throughout a deductive process, they are analyzed just in order to demonstrate the common point between them: the analysis of the macroeconomic environment. In the context of the risk assessment, only the phase related to risk identification is considered.

In order to achieve that objective the methodology employed was based on bibliographical research and data collection via the internet. The information gathered was processed and, under the risk identification point of view, resulted in the risk factors to be considered in the risk assessing process. Under the strategic planning point of view, it resulted in macroeconomic aspects. So, these macroeconomic aspects identified in the macroeconomic environment are risk factors such as Gross Domestic Product, Inflation, Exchange Rate, Interest Rate and Unemployment Rate.

This study provides the idea that the strategic planning process considers the macroeconomic environment in order to establish a set of objectives, and the risk assessment process considers this same environment in order to assure the achievement of those objectives. The need for a standardized set of technical words in the field of risk management is also pointed to as a conclusion. The final conclusion comes from the economic environment, from which trends are indicated for both opportunities and risks for the accomplishment of the post office's objectives in 2002.

Key words: Brazil. Macroeconomics. Post Office. Risk Assessment. Risk Identification. Strategic Planning.

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2 Introduction

“Managing activities internal to the firm is only part of the modern executive’s responsibilities. The modern executive also must respond to the challenges posed by the firms immediate and remote external environment.” ⁽¹⁾ This statement alone would be enough to justify a study of the implications of the external environment in the operations of a business such as the postal service. Moreover, two additional factors have reinforced the justification of this study: the Minerva Program itself and my commitments as auditor of the Brazilian Enterprise of Posts and Telegraphs (ECT).

The Minerva Program comprises a broad range of subjects in the field of economics, including macroeconomics. The program asks for the presentation of a final paper at the end of the course. In the same direction, on the side of ECT, the development of a study which could clarify the relations between the strategic planning process and the risk management process would be useful for the enterprise as a whole and, particularly, for its internal audit department where I am currently working. Thus, the macroeconomic environment is not just an intersection area of interest between the strategic planning process and the risk management process, it is also the common point between the Minerva Program and my actual needs. That is to say, this final paper does not have only an academic purpose, but a practical objective of improving the intellectual capital of the ECT’s internal audit department and its operations.

Basically, bibliographical research was the methodology employed in order to build the ideas developed in the following chapters. Internal manuals of ECT were consulted and used. The internet was also broadly employed, mainly to gather information about postal service organizations around the world and about economic trends of the Brazilian economy. A visit to the Office of the Inspector General of the United States Postal Service was also a very rich experience, which positively has influenced my perception about the subject studied. Those sources have provided the information and the knowledge that have formed the point of view exposed herein.

The results of this study are divided into three chapters: Strategic management and risk assessment; The post office objectives; and Macroeconomic aspects to be considered in assessing risk.

The first chapter describes both the strategic management and risk management process, demonstrating the intersection area object of the last chapter: the macroeconomic environment. This intersection point is achieved by a deductive analysis of the strategic planning process and the risk management process. However, none of them are deeply examined, except the part related to the economic environment. The descriptions will be broad enough to provide an overview about the context in which the core of the study is included, but narrow enough to make the study possible. Thus, this part of the study also establishes the boundaries of the subject under analysis.

The second chapter presents the niche where ECT acts and the objectives of the Enterprise. The niche is identified through the laws that regulate the postal service in Brazil and the objectives are identified as a result of the ECT' strategic planning process. This chapter has a special importance because it is the basis for the third one. The objectives determine what must be sought in the economic environment.

The third chapter shows what could be taken into account in the strategic planning process and in the risk management process of the Brazilian Enterprise of Posts and Telegraphs, considering its economic environment (specifically the macroeconomic one). Considering the fact that the economy is permanently changing, especially in Brazil, the analysis shown in this chapter will consider the economic trends of the Brazilian economy related to 2002, which can extend the usefulness of this final paper beyond the date of its submission.

3 Strategic management and risk management

3.1 Strategic management

Both strategic management and risk management have an important common point: the economic environment, particularly the macroeconomic environment. This is not the only common point, but it is an opportunity to clarify, at least, a subject big enough to deserve its own final paper. In order to understand the context where this encounter takes place, it is important to know the meaning of strategic management and risk management, as well as to have an overlook of each one of these processes.

Strategic management comprises the meaning of strategy, which is a large-scale and future-oriented plan for interacting with the environment to achieve enterprise's objectives, and the meaning of management, which is the sum of planning, organizing, directing and controlling. So, strategic management can be defined as:

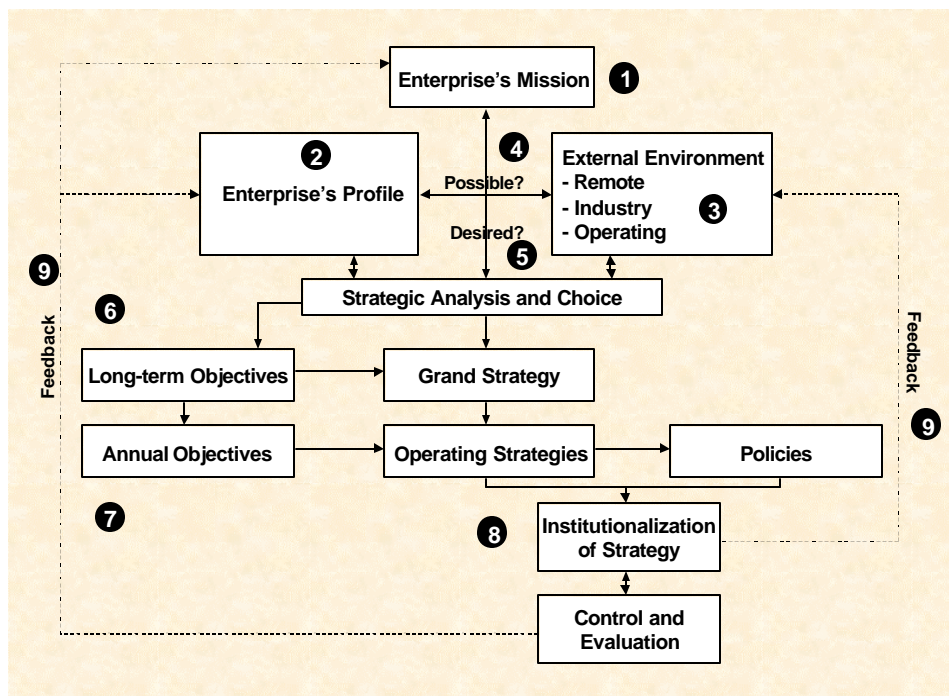
“... the set of decisions and actions that result in formulation and implementation of plans designed to achieve a company's objectives. It comprises nine critical tasks:

1. Formulate the company's mission, including broad statements about its purpose, philosophy, and goals.
2. Develop a company profile that reflects its internal conditions and capabilities.
3. Assess the company's external environment, including both the competitive and general contextual factors.
4. Analyze the company's option by matching its resources with the external environment.
5. Identify the most desirable options by evaluating each option in light of the company's mission.
6. Select a set of long-term objectives and grand strategies that will achieve the most desirable options.
7. Develop annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies.

8. Implement the strategic choice by means of budgeted resources allocations in which the matching of tasks, people, structures, technologies, and reward systems is emphasized.
9. Evaluate the success of the strategic process as an input for future decision making.”⁽¹⁾

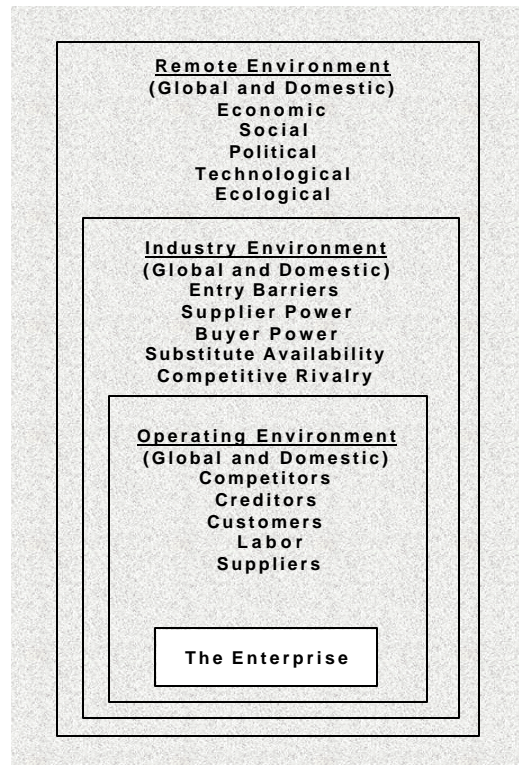
These steps can be seen in a schematic way as follows:

Illustration 1 – The Strategic Management Process



Considering the purpose of this final paper, step number 3 is the most important one because it is where the external environment is analyzed. The external environment comprises three elements, as follows:

Illustration 2 – The External Environment ⁽¹⁾



Despite the fact that the external environment comprises the remote, industry and operating environment, from now on it will be considered only the remote environment because, as Illustration 2 shows, it is where the economic environment is, particularly the macroeconomic one.

3.2 Risk management

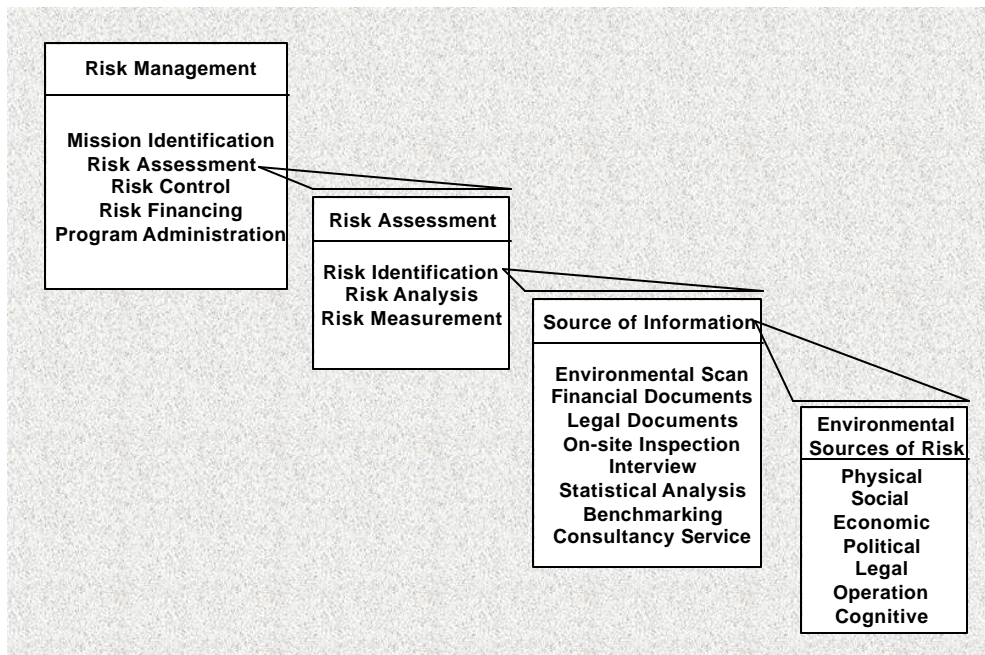
Although the activities of risk management have been traditionally executed as financial risk management or management of insurable risks, in this final paper will be spoused the broad definition of Organization Risk Management (ORM) as follows:

“ ...is a general management function that seeks to assess and address the causes and effects of uncertainty and risk on an organization.” ⁽²⁾

That means the risk management is not delimited only by financial risk or risk of insurable things because it involves all the organization. “The scope of ORM is organization-wide” ⁽²⁾. It is in that sense the expression risk management will be employed from here on.

The ORM comprises five steps, each one of them with many successive subdivisions. Regardless of that fact, the only step, with its subdivisions, which will be considered from now on is the risk assessment, once this is the core of this final paper. Neither risk analysis nor risk measurement will be object of further studies. The following illustration shows how the risk management achieves the economic environment, object of the next subtitle.

Illustration 3 – The Risk Management Process



Understanding risk management requires the comprehension of some basic words, which will be pretty useful in the following steps of this study. Before starting to present the definition of some technical terms, it is important to consider the fact that different authors have had different ideas about the definitions of the technical terms associated

to risk management , although the convergence to some points actually exists. For instance, a definition for hazard, opportunities, perils, risk and risk factors could be:

“Hazards: Activities, tasks, operations, tools, or agents that are significant sources of personal physical risk and potential negative Consequences. Example: Driving 4 wheel vehicles over rough terrain, chainsaws, handling poisons, solvent disposal.

Opportunity: An uncertain event with a positive probable Consequence. Related to Risk.”

Perils: unexpected catastrophic events with significant Consequences.”

Risk: A measure of uncertainty. In the business process, the uncertainty is about the achievement or organizational objectives. May involve positive or negative Consequences, although most positive risks are known as Opportunities and negative risks are called simply risk.”

Risk Factors: Measurable or observable manifestations or characteristics of a process that either indicates the presence of Risk or tends to increase Exposure.”⁽⁴⁾

Another one, presented by a second author could be:

“Hazards are characteristics of a risk source that elevates the chance for loss (or potential severity of loss), whereas risk factors are those characteristics that elevate the chance or magnitude of loss or gain.

Hazards may produce perils; which are actual causes of loss;...”

Opportunity serves as a speculative risk analog to ‘peril’.”

Risk is define as the ‘variation in outcomes around an expectation.’ In other words, we expect certain things to occur or not occur, and ‘risk’ refers to how life differs from what we expect.”

In the nomenclature of risk management, this means that assessment is concerned principally with discovering hazards (which produce perils) and risk factors (which produce opportunities)”.⁽²⁾

The comparison among those definitions leads to the conclusion that the meaning of risk for the first author comprises the meaning of opportunity, for positive risks, and simply risk, for negative ones. Risk factor to him is associated to the idea of loss, but also to the idea of gain (remember that the word risk comprises both meanings). The

second author, on the other hand, links risk factor to opportunity and hazard to perils (loss), giving to these words a different semantic field. Because of these differences, the words hazards and perils will not be used alone.

“The chief internal auditor, as well as the entire governance team, should seek a common understanding of risk, usually through adopting an organization risk framework and a common language to describe risk.”⁽⁴⁾ So, considering the importance of precise definition of technical terms, from now on, the words risk, uncertainty, sources of risk, risk factors, opportunities and exposure will be employed in the way described in the following paragraphs.

The idea of risk is related to variations in actual outcomes (consequences or results), considering a given expectation. In other words, risk is the possibility that the desired results do or do not occur. Positive risks are called opportunities, whereas negative risks are simply called risk. It can also be considered “a measure of uncertainty.”⁽⁴⁾

Uncertainty is a state of mind in which the outcomes are just estimated due to the lack of information about the variables involved in the process that likely can lead to the outcomes. Certainty does not exist. What exists is an acceptable level of uncertainty called moral certainty because “we are never certain; we are always ignorant to some degree”⁽³⁾ and “much of the information we have is either incorrect or incomplete”⁽³⁾.

Sources of risk are represented by the environment. Illustrations 2 and 3 present a list of several kinds of environments, where the enterprise seeks for opportunities and risks in order to take advantages from the former and to mitigate the later. However, this study will take into account, as a consequence of the delimitation of its scope, just the economic environment, more specifically the macroeconomic environment.

Risk factors can give rise to both opportunities and simply risk. That is why a risk factor has two sides. For instance, interest rate can be considered a risk factor that represents both opportunity and risk. It depends on which side one is. If we are considering the side of the lender, the higher the interest rate, the better. So, high interest rate means

opportunity to maximize earnings, while low interest rate means risk. On the other hand, if we consider the side of the borrower, exactly the opposite occurs. Because of this, opportunities are risks that can produce, or positively overcome, the desired results.

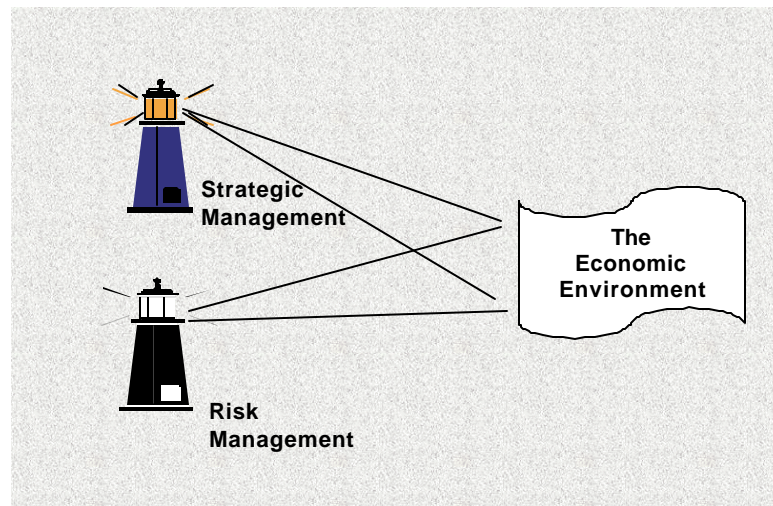
Considering the focus of this study, the risk factors that will be considered rise from the economic environment. They are the macroeconomic aspects that will be considered both in strategic planning process and in the assessing risk process of the Post Office.

Exposure to risk means to put assets at such a position that they can be affected by risk factors. An opportunity or a risk can not arise if assets are not exposed to risks. Since any organization seeks for the accomplishment of some objectives, assets are put at risk, in more or less extent.

3.3 The intersection between strategic management and risk management

In fact, strategic management and risk management have in common a broad intersection area which comprises the organization's mission, its objectives, the organization's profile and the environment where the organizations is inserted. According to Illustration 2, the strategic management process comprises the analysis of the economic environment under the title of a remote external environment, whereas, according to Illustration 3, the risk management process comprises the analysis of the economic environment under the title of environmental source of risk. That is to say, despite the different terminologies, the economic environment is where the lights of the strategic management meets the lights of the risk management, creating the intersection area object of this study. The following illustration shows this.

Illustration 4 – The Intersection



Nevertheless, both the mission and the objectives of the organization have a fundamental place in this study because they represent the basis over which the risk assessment is build up. The economic environment must be evaluated according to the mission and the objectives of the organization because the environment is the place where the organization pursues to accomplish its mission and its objectives.

The definition of the mission and the organization's objectives is a strategic management's role. The risk management just takes them as given data and, considering them, tries to identify in the environment (in this study, only in the macroeconomic environment) the elements that can aid or disturb the accomplishment of the mission and organization's objectives. Its is also a fact that the strategic management uses the same environment in order to look for opportunities and threats, which reinforce the idea expressed in Illustration 4.

4 The post office objectives

The idea of risk is associated to the idea of objectives. In order to achieve objectives, assets are put at risk. So, this chapter describes the legal and administrative origin as well as the objectives themselves of the Brazilian Enterprise of Posts and Telegraphs, which are taken as a basic reference for the ultimate analysis carried out in the last chapter.



In fact, the objectives themselves are not stated in the laws. The laws only define a niche and give ECT the privilege to exploit part of it on a monopoly basis. Inasmuch as both the objectives and the section of the macroeconomic environment object of this study are related to the niche, it is important to understand one another. The objectives appear as a result of the strategic planning process of ECT, which is, in some extent, the consequence of the federal government's planning process. This planning process will not be deeply studied. Just the indispensable information to understand the context of this study will be provided, since the objectives themselves will be taken as given data.

4.1 The legal chain

According to the principle of legality, the public administrator must do only what the law allows him to do, while the private administrator can do everything the law does not forbid him to do. Once the postal service is considered a public service run by a public administration, what it must do is stated in a chain of laws (broad speaking).

The Brazilian federal legislative and executive powers generate the laws indicated in Illustration 1, in some of which subjects related to the postal service are declared.

Illustration 5– Postal Service in the Brazilian Law

Power	Law	Postal Service
Legislative 	Federal Constitution	yes
	Complementary Law	no
	Ordinary Law	yes
	Delegated Law	no
	Legislative Decree	no
	Resolution	no
Executive 	Provisory Measure	no
	Decree	yes

Each one of the items signaled with “yes” contains statements which lead to the identification of the postal service’s niche. Since the study of the nature of the Brazilian laws is not the purpose of this final paper, the following subtitles present further details about how the postal service is seen by the laws above indicated instead of discussing the nature of the laws themselves. Where the subject postal service can be found in the Brazilian laws is, also here, a given data that will serve as a basis to the following analysis.

4.1.1 Federal constitution

The *Magna Carta* is the most important law in a nation because the whole system of laws is built on it. The postal service and the way it works have the Federal Constitution of 1988 as its primary legal source. The Title II – Of the Organization of the State, Chapter II – Of the Federal Government, Article 21, item X of the Federal Constitution states:

“It is competence of the Federal Government: maintain the postal service...”

Maintain means keep up or carry on; continue; keep in an existing state; preserve or retain; keep in a condition of good repair or efficiency; provide for; support; keep in existence; sustain. That is to say the Federal Government must keep the postal service in an existing state, preserving it, sustaining it and keeping it in a condition of good repair or efficiency.

In order to maintain the postal service across the country, the Federal Government created The Brazilian Enterprise of Posts and Telegraphs in 1969. Although the congress passed the current constitution in 1988, the former constitution also stated that the postal service should be maintained by the Federal Government. Because of this, the pre-existed laws about postal service were assimilated by the constitution of 1988.

So far neither the postal service's niche nor even the definition of postal service are established yet. In fact they start to be clear in the laws below the Federal Constitution. These laws are studied in the next subtitles.

4.1.2 Ordinary law

There are two ordinary laws about postal service: the Law Decree 509 of 03/20/1969 (which has the same status of ordinary law mentioned in Illustration 5), which created the Brazilian Enterprise of Posts and Telegraphs (ECT) and the Law 6,538 of 06/22/1978, known as the Postal Law (also an ordinary law). The first one states in its Article 12, Item I,:

“It is competence of ECT: execute and control, on a monopoly basis, the postal service in the whole national territory;...”

The second one states:

Article 2nd – The postal service and the telegram service are exploited by the Federal Government , via public enterprise linked to the Ministry of Communications.

§1st – Are in the object of the enterprise:

- a) planning, implementing and exploiting the postal service and the telegram service;
- b) exploiting correlated activities;
- c) promoting formation and training of the personnel necessary to its activities;
- d) executing other associated activities authorized by the Ministry of Communications.

Article 7th – Postal service is receiving, dispatching, transporting and delivering items of correspondence, values and parcels, according to definitions of the regulation.

§1st – Are items of correspondence:

- a) letter;
- b) postcard;
- c) printings;
- d) letters for the blind;
- e) *petit paquet*;

§2nd – Are postal service related to values:

- a) sending money via letter with declared value;
- b) sending money via money order;
- c) collecting tax, receiving liabilities via postal.

§3rd – Are postal service related to parcels, the sending and delivering of items, with or without commercial value, via postal.

Article 8th – Are correlated activities of the postal service:

I – selling stamps, philatelic items, international *coupon-réponse* , printings and papers of correspondence;

II – selling publications that divulge regulations, fares, lists of zip code and other subjects related to the postal service;

III – exploiting the commercial publicity in items of correspondence.

Article 9th – Are exploited by the Union, on a monopoly basis, the following activities:


I – receiving, transporting and delivering, in the national territory, and dispatching abroad, letter and post card;

- II – receiving, transporting and delivering, in the national territory, and dispatching abroad, aggregated correspondence¹;
- III – manufacturing, issuing stamps and other franking solutions.

In short, the postal service comprises the following:

Table 1 – Summary of the Postal Service

Law 6,538 of 06/22/1978 – Postal Service						
Postal Service (Article 7 ^h)			Correlated Activities (Art. 8 ^h)			Associated Activities (Art. 2 ^o , § 1 ^o , d)
Items of Correspondence (§1 ^o)	Values (§ 2 ^o)	Parcels (§ 3 ^o)	I	II	III	
<div style="border: 1px solid black; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin-bottom: 5px;"> Letter. Postcard. </div> Printings. Letters for blindes. Petit-paquet.	Sending money via letter with declared value. Sending money via money order. Collecting tax, receiving liabilities via postal.	Sending and delivering of items, with or without commercial value.	Selling stamps, philatelic items, international coupon-réponse, printings and papers of correspondence.	Selling publications that divulge regulations,fares, lists of zip code and other subjects related to the postal service.	Exploiting the commercial publicity in items of correspondence.	This activities are not explicit declared in the law. The authorization of the Ministry of Communications is enough to create them.

 Services subject to the monopoly.

Continuing, the telegram service is stated in the following way:

Article 3^d – The exploiting enterprise is obligated to assure the continuity of the services, regarding index of confidence, quality, efficiency and other requirements established by the Ministry of Communications.

Article 25 – The service of telegrams comprehend receiving, transmitting and delivering written messages, according to definitions of the regulation.

Article 26 – Are activities related to the service of telegrams:

- I – selling publications about regulations, rules, fares and other subjects related to the service of telegrams.
- II – exploiting the commercial marketing in forms of telegrams.

¹ Aggregated correspondence here has the meaning of a group of items in which at least one of them is subject to the monopoly.

Article 27 – The public service of telegrams is exploited by the Union in a monopoly basis.

In short, the telegram service includes the following:

Table 2 – Summary of the Telegram Service

Law 6,538 of 06/22/1978 – Telegram Service *			
Telegram Service (Art. 25)	Correlated Activities (Art. 26)		Associated Activities (Art. 2º, § 1º, d)
	I	II	
Comprehend receiving, transmitting and delivering written messages.	Selling publications about regulations, rules, fares and other subjects related to the service of telegrams.	Exploiting the commercial marketing in the form of telegrams.	This activities are not explicit declared in the law. The authorization of the Ministry of Communications is enough to create them.

* The whole telegram service is considered monopoly.

4.1.3 Decree

The Decree is a kind of law (in the broad sense) issued by the Executive Branch in order to regulate a law (in the specific sense) issued by the legislative branch. The Decree 83,726 of 07/17/1979 approved the statute of The Brazilian Enterprise of Posts and Telegraphs in the following terms:

Article 4^h – Are in the object of the Enterprise, according to the Law 6,538 of 06/22/1978:

- I – planning, implementing and exploiting the postal service and the telegram service;
- II – exploiting correlated activities;
- III – promoting formation and training of the personnel necessary to its activities;
- IV – executing other associated activities authorized by the Ministry of Communications.

This Decree is a transcription of the Law in which it is based. Because of this, it does not add anything in terms of niche or objectives to what have so far been presented in

the previous subtitles. However, the Decree has an important role describing the organizational structure of the Enterprise, which is not under analysis at this moment.

4.2 The post office strategic planning process

4.2.1 The structure of the ECT' strategic planning process

The Manual of General Planning and Budget Control (MANPLA) is the document issued by the Brazilian Enterprise of Posts and Telegraphs where the subject strategic planning process can be found. Its Module 1, Chapter 1 states that:

“The evolution of the organization must be followed by changes in the managerial system. While the Enterprise transforms itself in order to be adapted to the environment, the managerial systems must be improved in order to reflect this changing environment.”

This continuous process of improvement must be executed for a period of four years (MANPLA, Module 2, Chapter 2, Subtitle 5.1.1), but the mission, policies, directives, strategic factors, objectives and corporate projects can be reviewed annually (MANPLA, Module 2, Chapter 2, Subtitle 5.1.2). So the Strategic Plan comprises:

- “ – mission, policies and directives;
- strategic factors;
- investment and sustainable programs
- objectives and corporate projects.”

(MANPLA, Module 2, Chapter 2, Subtitle 1.1)

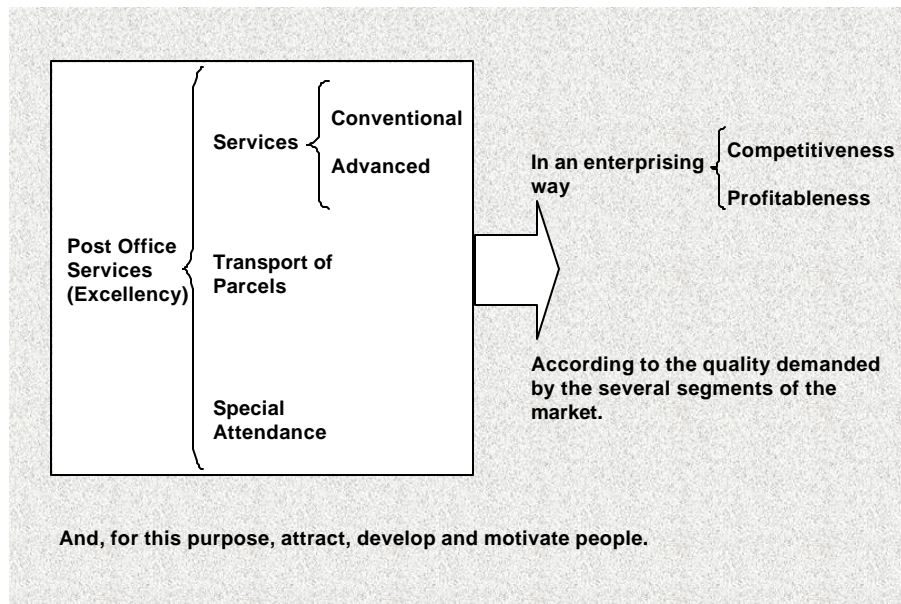
4.2.2 The mission

This planning system targets the accomplishment of the Enterprise's mission, which is the reason of the existence of the Enterprise (MANPLA, Module 1, Chapter 1, Item 1), stated as follows:

Execute conventional and advanced post office services, transportation of parcels and special attendance, in an enterprising way, with competitiveness and profitableness, according to the quality demanded by the several segments of the market, as well as attract, develop and motivate people in order to assure the excellency of the services.

The elements that build the Brazilian Enterprise of Posts and Telegraphs' mission can be seen as follows:

Illustration 8 – Elements of the ECT's Mission



4.2.3 The objectives

The ECT's current strategic plan states the following objectives:

Table 3 – The ECT's Objectives

Line	Focus	Objectives
Government	1) Access to the services.	a) assure the access of the people to the basic services of the ECT.
	2) Modernization of the Postal Services.	b) continue the process of modernization.
	3) Controls.	c) continue the implementation of the new system of financial, administrative and operational control.
	4) Financial performance.	d) obtain profit superior to 9% of the revenue.

Line	Focus	Objectives
Market	5) Performance of the quality.	e) maintain, at least, the quality of the service reached last year.
	6) Performance of the productivity.	f) increase by 10% the number of items handled per employee and the revenue per employee.
Society	7) Marketing innovation.	g) obtain 2% of the annual revenue with new products.
	8) Citizenship	h) increase the participation of the ECT in projects which promotes the citizenship.
Employee	9) Internal motivation	i) increase actions of supporting the self-development of the employees and the meritocratic system of administration.

It is interesting to see that the elements of the ECT's mission are embedded in the objectives stated in the table presented above. In order to simplify that table, the objectives can be put together in the following way:

Table 4 – Summary of the ECT's Objectives

Objective	Item of the last table
Return on equity.	d)
Quality	e)
Increase of market-share.	g)
Technological up-date.	b)
Administrative and operational efficiency.	f) and c)
Execution of public policies and legality of the administrative acts.	a) and h)
Valorization of the personnel	i)

The accomplishment of these objectives occur in the environment where the enterprise looks for opportunities and risks. The opportunities must be exploited, while the risks must be mitigated. Both opportunities and risks are sides of the same coin and are present in each one of the objectives of Table 4. Considering the set of objectives above, the macroeconomic environment will be scanned in the search for risks in the next chapter.

5 Macroeconomic aspects to be considered in assessing risk

This chapter has the purpose of identifying, within the macroeconomic environment related to the niche of the Brazilian postal service, the risk factors that can affect the achievement of the ECT's objectives.

5.1 The macroeconomic environment

Macroeconomics is the branch of economics related to "...the study of the structure and performance of national economies and of the policies that governments use to try to affect economic performance." ⁽⁵⁾ Since macroeconomics is oriented by a broad overview of a national economy, it is not interested in studying a specific organization but in studying the behavior of an aggregate number of organizations, which all together form the macroeconomy. Nevertheless, the study of the consequences of the state of the macroeconomic environment on a specific economic segment or even on a specific organization is the object of the macroeconomic analysis.

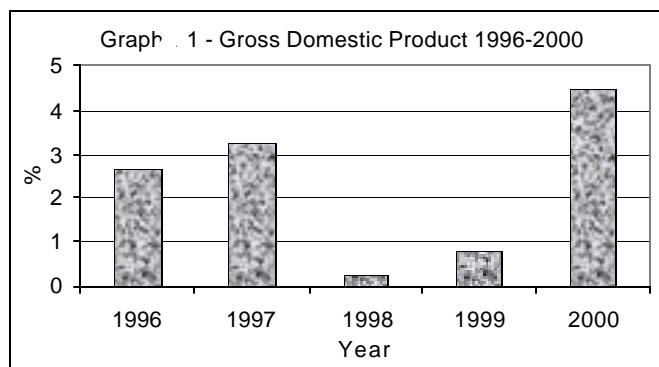
Taking as a reference the interests of any organization, the macroeconomic environment represents a source of risks (positive risks, which are opportunities, as well as negative risks, which are simply risks). In order to identify those risks, the information about the environment can be obtained through a set of tools such as: environmental scans; financial documentation; legal documentation; on-site inspection; interviews; statistical analysis; benchmarking and consultancy services (see Illustration 3). Thus the macroeconomic analysis will be taken as a technique which can facilitate the environmental scan and the statistical analysis. The remaining tools will not be employed because they can be substituted by my own experience as a current auditor of the ECT, or because their usage could not be possible considering the time and information availability constraints.

5.2 The environmental scan

“The purpose of the scan is descriptive rather than analytical...”⁽²⁾ So, the risk factors (or the macroeconomic aspects) to be considered in assessing risk in the post office stems from the following descriptive presentation of the Brazilian macroeconomic environment.

5.2.1 Gross Domestic Product

During the last five years the Brazilian Domestic Product grew by an average of 2.28 % a year. The graph below depicts this growth:



Source: Suma Econômica, Edition 280, page 10.

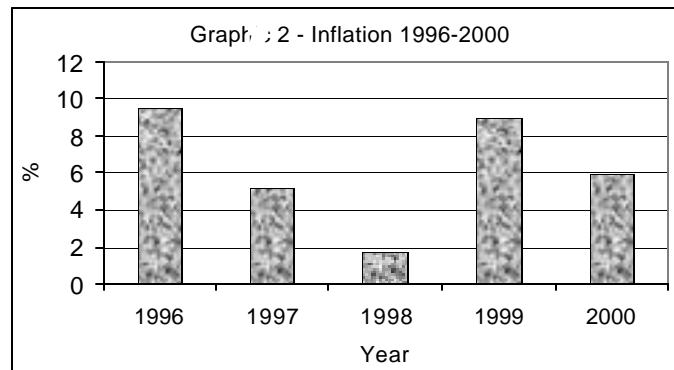
In 2000, the GDP grew 4.46%, which suggested a good growth in 2001 too. However, a global economic slowdown, an increase in the risk related to developing countries, shortage of energy and the Argentinean crisis have generated uncertainties and negative consequences in the Brazilian economy. Because of this scenario, the Brazilian GDP is expected to grow about 1.50% in 2001 and, according to the Executive Branch Budgetary Proposal, 3.50% in 2002. However, pursuant to more pessimistic predictions, the GDP will grow about 1,00% (Credit Suisse, First Boston, Brazil: Too Early for Euphoria, page 19).

Studies elaborated by the Universal Postal Union have indicated that the postal market grows in the same proportion of the GDP. So, it was expected that the postal traffic in Brazil would grow 4.46% in 2000 and about 1.50% in 2001. But, in fact, the postal traffic handled by ECT achieved, in 2000, 8.7 billion items, which have represented a growth of “18% over the 1999 mark” ⁽⁷⁾. In that same year, “the Post Office recorded revenues of R\$3.9 billion, topping 1999 figures by 12.2%.” ⁽⁷⁾ (The inflation for this period was 5.97%²). For 2001 and 2002 the trends head for traffic and financial growth too.

In order to face the continuous growth of the postal sector in Brazil and in order to face the challenge of maintaining the high quality of the services provided by ECT, “in 2000, the Post Office proceeded with its investment expansion policy and disbursed R\$ 334 million, 15.4% over last year’s figure” ⁽⁷⁾. In 2002 this tendency of new investments is expected to be repeated.

5.2.2 Inflation

The inflation rate, measured by the Consumer Price Extended Index (IPCA), have moved up and down in the last five years. The graphic below depicts that variation:



Source: Suma Econômica, Edition 280, page 15.

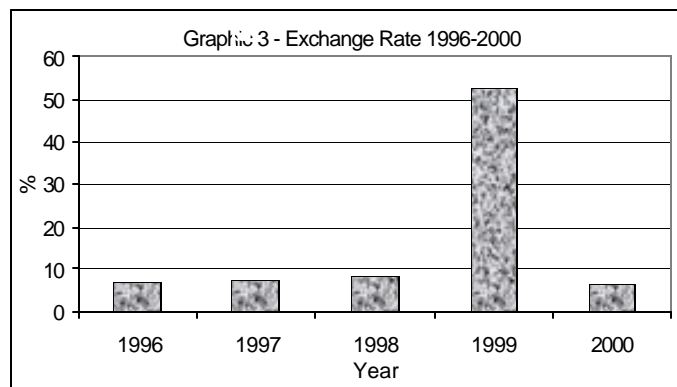
² IPCA – Consumer Price Extended Index.

Compared to 1999, the inflation rate decreased in 2000. However, it is expected that the inflation rate has a slight increase in 2001 followed by a decrease in 2002, when it will likely reach about 6.52% and 5.02% (Suma Econômica, Edition 281) respectively.

The inflation rate has direct consequences in the pricing system of ECT, in the salaries of its labor force, in the prices of its suppliers and, finally, in the financial outcomes of the Enterprise. Although the inflation in Brazil can be considered under control in the last years, its consequences still demand for important efforts of the organization.

5.2.3 Exchange rate

Just a small part of ECT's total liabilities³ in foreign currency are in US dollars. The foreign currency loans took by the enterprise are mainly in euros, yenes and German marks. Although each currency has its own behavior in terms of appreciation or depreciation against the real, the US dollar exchange rate variation will be taken as an example in order to simplify the analysis. The real has been constantly devalued against the US Dollar in the last few years. The following graph depicts that variation⁴:



Source: Suma Econômica, Edition 280, page14.

In 2001, the real should reach a total depreciation of about 25% and, in 2002, a total depreciation of about 22% against the US dollar (Global Invest, Monthly Report,

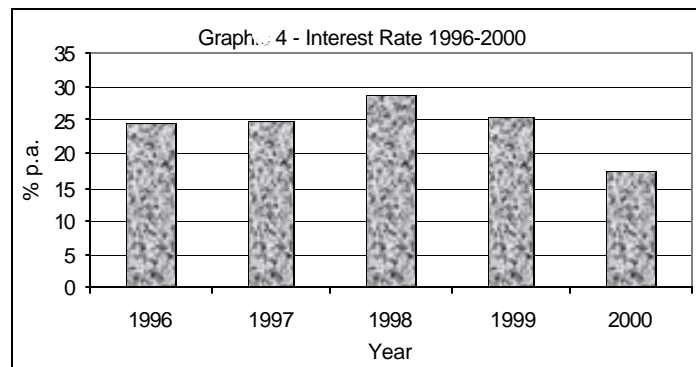
³ The ECT's Balance Sheet for 2000 presents, as Long Term Liabilities, a total of Loans and Financing of R\$102,435,358.82, of which R\$6,276,315.54 in US Dollars.

⁴ It was considered the average value of the US dollar for December of the years mentioned on the graph.

11/08/01). In order to reinforce the idea of different variations for different currencies, the Japanese yen and the German mark have in 2000 appreciated by 2.52% and 5.27% against the real, while the US dollar has appreciated, in that same period, by 6.53%. This is to say that the extent of the impact of the exchange rate on the liabilities of the ECT depends upon the currency in which they are denominated. Anyway, any variation of the real always bring consequences to the financial statements of the enterprise, which decrease or increase its final outcomes.

5.2.4 Interest rate

The Central Bank's Monetary Policy Committee (Copom) is responsible for the administration of the interest rate⁵, which has had the following behavior in the last five years:



Source: Central Bank of Brazil (www.bancocentral.gov.br/htms/infeccon/demab/selic/taxaselic.txt)

The interest rate (Selic) is expected to reach an average of 17.3% in 2001 and to remain stable at 19.0% p.a in 2002 (Credit Suisse, First Boston, Economic Research, October 2001, page 24).

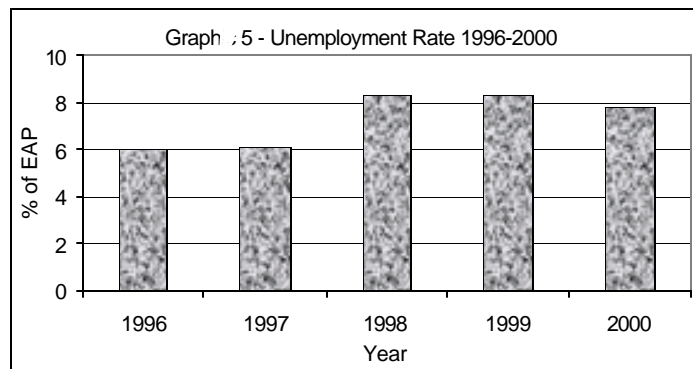
The ECT has finished the year 2000 with R\$468,805,914.12 in quick assets, the bulk of which are applications in Fixed-income, Short-term, BB/Extra-Market Funds of Bank of

⁵ The interest rate set up by the Committee is the Selic rate target, which is the overnight rate for government bonds in the Sistema Especial de Liquidação e Custódia.

Brazil in line with Resolution 2108/94-Bacen and Law Decree 1290/73, amounting to R\$318,877,158.74. Since this application is compounded basically by federal government bonds, the interest rate set up by Copom affects the outcomes of the ECT's applications.

5.2.5 Unemployment rate

The unemployment rate in Brazil, considering the total Economic Active Population (EAP), has presented, especially in the last three years, slight variations, as follows:



Source: Brazilian Institute of Geography and Statistics (IBGE). It indicates the average rate in the period – 30-day open unemployment.

The trends for 2001 and 2002 point to an employment rate of 6.7% and 7.2% respectively (Credit Suisse, First Boston, Brazil: Too early for euphoria, CSFB Brazil economics team, November 20, 2001, page 19)

With about 82,000 payroll employees⁶, ECT is the biggest single employer in Brazil. Because of this, the level of unemployment in the country affects the way the labor union acts and the way the human resource of the organization must be administrated.

⁶ Despite the fact that the ECT is a state owned Enterprise, its employees are hired like private employees. It is in this sense that the ECT is the biggest employer.

5.3 Risk factors

The risk factors we are looking for arise from the macroeconomic environment (a source of risk) described in the previous item. The macroeconomic aspects such as GDP, Inflation, Exchange Rate, Interest Rate and Unemployment Rate are elements that can give rise both to opportunities and risks. So, in other words they are the risk factors we have been seeking. It is worth to say that they are not the only risk factor that can be found in the macroeconomic environment. Others can be identify and be subject of a deeper and specific study. Nevertheless, they will be, from now on, the only ones that will be considered, since they exemplify, in a satisfactory extent, macroeconomic aspects to be considered in the strategic planning and in the risk assessing process of the Post Office.

However, before considering them as definitive risk factors, it is necessary to link them to the objectives of the Enterprise. This is important because it does not make sense to talk about risk without objectives. Risks exist due to the difficulties and facilities one can find in striving for achieving objectives. Exposure to risk is the way to achieve objectives. Even unknowing the precise extent of the difficulties and the facilities we will find ahead, we believe that, at the end of the way, the gains will be bigger than the losses. That why enterprises are created and managed.

Pursuant to the scope of this study, the risk identification is the ultimate goal to be attained. At this point, it is clear that “Risk is implied by the inability to predict the future...”⁽⁸⁾. Where there is no uncertainty there is no risk. Therefore, the risk identification phase of the risk management process is an exercise of linking to the ECT's objectives the factors that can possibly affect the interests of the Enterprise. The possibility is a key word at this moment because we are working with uncertainty. We are not sure only about the completeness of the risk factors identified, but also about the moment that they can act and about the extent of their consequences.

“The essence of risk management lies in maximizing the areas where we have some control over the outcomes while minimizing the areas where we have absolutely no

control over the outcome and the linkage between effect and cause is hidden from us.”

⁽³⁾ What is going to be present is the first step of the second phase of the risk management process (Illustration 3).

Taking as a reference the macroeconomic environment, risk identification comprises the identification of “...what could go wrong, how it happens, and why it happens” ⁽⁴⁾ in the Brazilian economy and, considering the ECT’s niche and objectives, how that affect the Enterprise. This is described in the Appendix.

As an insight from the content of the Appendix and remembering that “Risk management is defined as ‘the continuous process by which business risks are identified, evaluated, controlled, and financed’” ⁽⁴⁾, the risk factors identified must be continuously monitored. Thus, uncertainty can be reduced, providing to the managers of the organization the information necessary to them to adjust the internal process of the Enterprise in order to better face the changes in the environment and to assure the achievement of the established objectives.

6 Conclusion

Strategic planning, risk management and macroeconomics have been the three corners of the study developed in this final paper. Each one of these areas of knowledge is broad enough to give rise to a number of other studies. So, in order to make possible a study that could actually satisfy my needs as an auditor of the Brazilian Enterprise of Post and Telegraphs and fulfil the requirements of the program of the course The Theory and Operation of a Modern National Economy, the scope of the study was limited. This limitation has led to a search for a common point amongst those previously mentioned areas.

Many common points amongst those areas were found. Nevertheless, only the economic environment is related to the core of the course, which is economics. Thus, the title of this final paper was defined as “Macroeconomic Aspects to be Considered in the Strategic Planning Process and in the Assessing Risk Process of the Post Office. In this search for a common point to be analyzed, a first conclusion has emerged from the first chapter.

Risk management and strategic planning always seem to have overlapping functions. However, a deeper analysis of this subject has provided a more accurate perception. The strategic planning process is responsible for the establishment of the objectives of the organization, whereas the risk management process is responsible for the assurance of the achievement of the objectives defined by the strategic planning process. Hence, there are no overlapping functions but complimentary functions. This is the first conclusion.

The second conclusion also arises from the first chapter. The bibliographical research put into practice in order to identify a standardized set of technical words in the field of risk management has resulted in the identification of the fact that, in this field, different

words have been used with equivalent meanings and, at the same time, some words have been used with different meanings. Different frameworks for risk management were also identified, but were not deeply analyzed. A common understanding about the meaning of a set of technical words is very important for a precise communication process and, finally, for the success of any activity. So, at least, inside the same organization, in this case the ECT, it is recommended to create a vocabulary of words to be employed in the activities related to risk management.

The last chapter provides some final conclusions, which are related to the economic environment and to the niche of the postal service. The economic trends for 2002 suggest a year of both opportunities and risks for the Post Office' objectives of Return on Equity, Quality, Increase of Market Share, Technological Up-date, Administrative and Operational Efficiency, Execution of Public Policies and Legality of the Administrative Acts and Valorization of the Personnel.

The GDP is expected to grow between 1.0 and 3.5%. This growth is less than that of 2001, but it is a growth in a global environment of slowdown and small growths. Since the Brazilian postal service grows at least at the same speed as the GDP, the ECT shall continue to expand too.

Inflation is expected to have a slight decrease in 2002. It will very likely be between 6.52 and 5.02%. That is to say there will be a slightly smaller pressure in the pricing system of the enterprise, in its expenditures and also from its labor union.

The real is expected to continue its depreciation against the US dollar. It is expected that the real will depreciate about 22% in 2002. Thus, considering the ECT's liabilities denominated in foreign currencies, there will be an expansion in the ECT expenditures in the same proportion of the real's depreciation.

The interest rate, on the other hand, is expected to remain stable at 19% p.a. in 2002. The outcomes of the financial applications of the enterprise will follow the variations of the interest rates paid by the federal government.

Finally, the unemployment rate is expected to be slightly higher in 2002 (7.2%) than it was in 2001 (6.7%). Slight adjustments are expected from the ECT's mechanisms of adjustment of the salaries to the market.

As mentioned before, the macroeconomic environment in which the postal service acts, and the strategic planning and risk management issues form together a puzzle difficult enough to figure out in such a short, but hopefully useful, paper. Therefore, this study could encourage insights in interested future students and lead to further analysis of related subjects not considered herein due to the boundaries established by the scope of this final paper. For instance, these subjects could be

- (i) all other phases of the risk management process beyond risk identification;
- (ii) the identification of risks in the not considered environmental sources of risk ;
- (iii) other macroeconomic aspects beyond the five described;
- (iv) the components of an early warning system based on the risk management process;
- (v) the risk management process as an input of the strategic audit planning process;
- (vi) the strategic planning process as an input of the strategic audit planning process.

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Appendix : Table 5 – Risk Identification: the risk factors

Objectives	Risk Factor									
	GDP		Inflation		Unemployment		Interest Rate		Exchange Rate	
	R	O	R	O	R	O	R	O	R	O
Return on equity.	✍	✍	✍	✍	✍ (1)	✍ (1)	✍ (2)	✍ (2)	✍	✍
Quality	✍	✍			✍	✍				
Increase of market share.	✍	✍	✍	✍	✍	✍	✍	✍		
Technological up-date.	✍	✍			✍	✍	✍	✍	✍	✍
Administrative and operational efficiency.	✍	✍	✍	✍	✍	✍				
Execution of public policies and legality of the administrative acts.	✍	✍	✍	✍	✍	✍				
Valorization of the personnel.	✍	✍	✍	✍	✍	✍				

Note: the blanket dashes mean that it was not seen an immediate correlation between the objective and the risk factor.

R: risk; O: Opportunity.

~~✍~~: high; ~~✍~~: low. It means, for instance, high GDP represents opportunity, whereas low GDP represents risk to the objective return on equity.

(1) There is a limit from which the level of unemployment can affect the salaries.

(2) When the liquidity is high, high interest rates can lead to high returns on financial applications. Yet, on the other hand it can avoid investments.